Fiscal Commission
Statement of Senator Max Baucus
December 3, 2010

Today, we are considering a deficit reduction package proposed by the co-chairs of the Commission. I thank the co-chairs for their many, many hours of hard work leading this Commission.

They are clearly committed to putting our nation on a secure fiscal footing. And I commend them for their work.

We need to reduce our Federal budget deficits. We need to do so to help ensure that our children and grandchildren can look forward to a brighter future.

We made good progress toward that goal earlier this year. We did so when Congress enacted the new health care reform law.

That law is the only law enacted in the last 13 years that achieved more than $100 billion of deficit reduction, measured over 10 years.

The nonpartisan Congressional Budget Office estimated that the new health care law will save $143 billion in the first 10 years. And it will save as much as $1.3 <u>trillion</u> over the second 10 years.

Today, we are considering another substantial deficit reduction plan.

Reducing the deficit is never easy. But at this time, a sound deficit reduction package must meet five tests.

First, a sound deficit reduction package must create jobs. It must not do anything to increase unemployment.

Second, a sound deficit reduction package must be fair to rural states, such as my home state of Montana.

Third, a sound deficit reduction package must promote economic growth. It must invest in critical priorities like education and infrastructure.

Fourth, a sound deficit reduction package must protect those who are economically vulnerable. That includes our nation's poor, our seniors, and many of those who live in rural areas.

Fifth, a sound deficit reduction package must not impede the one deficit reduction effort that we have made in the last 13 years. It must allow the health care reform law to take effect. We need to give that law enough time to increase health care coverage, improve quality, and reduce the growth rate of health care costs.

Unfortunately, the plan before us does not meet these tests.

There are provisions in this package that I cannot support.

First, there are many provisions in this plan that would hurt rural states such as Montana. The plan would raise the gasoline tax by 15 cents a gallon. This would hurt people in states like Montana who often have to travel long distances.

The plan would cut $10 billion from farm programs on which Montana depends.

And it would raise electricity rates in rural areas. In particular, it would raise rates for hydroelectric power in Western Montana.

Second, while I appreciate the Fiscal Commission's support of the delivery system reform measures from the new health care law, I think that we need to give them time to work before making any changes. The plan does not do this.

Congress established the timelines in the new health care law in the most aggressive, but responsible way. We should not speed them up.

The suggestion of radical changes to Medicare and Medicaid — like turning Medicare into a voucher program and Medicaid into a block grant — is very troubling to me. I cannot support jeopardizing the health care safety net that has served elderly and low-income Americans well for more than 45 years.

Third, the plan before us would increase the retirement age for Social Security. Under current law, the normal retirement age will rise to 67 by the end of 2022, so that after 2022, all seniors retiring before age 67 will receive reduced benefits.

The plan before us proposes to raise the normal retirement age another 2 years. The plan would raise the retirement age to 68 by 2040, and to 69 by about 2075. This would result in deeper benefit cuts for <u>all</u> new retirees after 2022.

At the same time, the plan would raise the <u>early</u> retirement age from 62 to 64 after 2022. That would mean that workers would not even have a choice of retiring before age 64.

These retirement age changes would place burdens on older Americans that I simply cannot support. There are too many people in poor health and in physically-demanding jobs who simply cannot — or should not — work as long as this plan would ask them to.

In particular, there are many people in Montana, my home state, who work in physically demanding jobs like ranching, farming, and mining. And I would note that Montana, like other rural states, has a high number of seniors per capita.

I would also note that this plan does not concentrate enough on proposals that would reduce future deficits by helping businesses create jobs and grow our economy.

Reducing the deficit is a goal toward which I have long worked. I am committed to continuing that work.

Unfortunately, this package, as it stands today, is not a plan that I can support. I look forward to continuing to work on a bipartisan, bicameral basis, to come up with a deficit reduction plan that I and others can support.

Statement by Rep. Xavier Becerra
On the Final Report of the
President's Commission on Fiscal Responsibility and Reform
December 1, 2010

The report issued by the Chairmen of the National Commission on Fiscal Responsibility and Reform is the first step towards making the hard choices to clean up our fiscal mess and create an economic strategy that will put America back on track. I thank our Co-Chairmen Erskine Bowles and Alan Simpson for accepting the task of leading this Commission, and commend them both for advancing the debate on this important issue.

Several of the Chairmen's proposals have merit and deserve to be considered in the next Congress. Their report makes clear that there are many ways to deal with our need for fiscal reform in Congress, and the Chairmen, to their credit, put on the table several "sacred cows" which should be the subject of review.

However, there are also areas of the Co-Chairs' report that I believe fall short.

Drivers of the Current Deficits

I do not believe this report sufficiently targeted for reform the principal drivers of our current deficits. We must face up to the decisions of the past which contributed significantly to our current debt and deficits (see Appendix 1, which shows components of projected federal deficits). We sent our troops to war and never paid for it. We passed an unfunded Medicare prescription drug benefit for our seniors and never paid for it. And we cut taxes for the wealthy in a time of war and recession and never paid for it. These actions taken by Congress and the previous Administration helped turn a record $5 trillion projected 10-year surplus into record deficits. We should not now pay for these fiscal transgressions by slashing funding for our children's classrooms and programs at our senior citizen centers, particularly because changes in discretionary spending in agencies other than the Department of Defense made up very small shares of changes in total discretionary spending (See Appendix 2, Change in U.S. Federal Discretionary Spending, 2001-2010).

Tax Earmarks & Tax Reform

I commend the Co-Chairs for beginning a long-overdue conversation on earmarks in the tax code. Tax earmarks (which cost us $1.1 trillion annually) not only add significant complexity to the code, they receive little scrutiny on their purpose or effectiveness, grow on autopilot, and generally offer the largest benefits to the wealthy. I applaud the Co-

Chairs for their support of zero-based budgeting in this area, requiring that tax earmarks be justified before they are incorporated into the tax code.

Despite advancing the tax reform debate in an important way, the Co-Chairs' approach to tax reform was regrettably anemic. In the Co-Chairs' plan, merely 7% of the revenue generated from eliminating tax earmarks would be dedicated to deficit reduction. I agree with the Co-Chairs that an overhaul of the tax code is long overdue, and that we should strive to make our 15,000 page tax code simpler, fairer, and more efficient. However, we need to be cognizant of the drivers of our deficits and a deficit reduction plan must reflect the effects that large, deficit-financed tax cuts have had on our current and future fiscal situation. More to the point, while some in Washington have draw attention to appropriations earmarks as a driver of our deficits, we would have to eliminate 70 years' worth of appropriations earmarks to equal the amount of money spent every year through special earmarks in the tax code.

For perspective: letting current law prevail as relates to the tax code (essentially returning to the tax structure that existed during the Clinton Administration, where 22 million jobs were created) would solve the medium-term deficit problem the Commission was tasked to solve, and achieve roughly the same amount of savings as the Co-Chairs' proposal through 2020. This approach does not require a single vote in Congress to take effect. Who says the only real solutions are complicated and opaque?

Investing in our Recovery

Finally, I do not believe enough focus was placed on the actions required to set our economy on a path of growth and prosperity. The biggest deficit facing our country right now is a jobs deficit. America works when Americans are working, and enacting policies that ensure strong and sustained economic growth is an essential component of long-term deficit reduction. Quite honestly, we cannot balance the federal budget with 15 million Americans out of work. I believe the Chairmen's proposal missed the opportunity to emphasize that short-term deficits, incurred for policies that promote economic recovery and investment, are not incompatible with responsible, long-term deficit reduction.

After carefully reviewing the Chairmen's final report, I have concluded that I cannot support it. But our work can continue because Chairmen Bowles and Simpson have laid before us many of the elements that, combined with common sense, can lead us to a sound solution to our deep fiscal troubles.

Becerra Appendix: Change in U.S. Federal Discretionary Spending
2001-2010 (billions of current dollars)

Agency	*2001*	*2010*	*Budget Increase*
Defense, including war costs	316.3	693.42	64.7%
Veterans Affairs	22.38	53.06	5.3%
Health and Human Services	54.15	84.1	5.1%
Homeland Security	16.05	43.28	4.7%
State	7.77	29	3.6%
Housing and Urban Development	28.36	43.58	2.6%
International Assistance	12.59	23.4	1.9%
Justice	18.4	27.65	1.6%
Commerce	5.1	13.8	1.5%
Agriculture	19.24	27.35	1.4%
Transportation	14.68	21.78	1.2%
Education	40.1	46.78	1.1%
Energy	20.03	26.41	1.1%
NASA	14.25	18.72	0.8%
Other	22.77	26.61	0.7%
Treasury	10.34	13.55	0.6%
EPA	7.84	10.3	0.4%
The Judiciary	3.99	6.44	0.4%
National Science Foundation	4.43	6.87	0.4%
Labor	11.96	14.27	0.4%
Interior	10.27	12.15	0.3%
Legislative Branch	2.85	4.73	0.3%
Total Discretionary Authority	664	1247	

Fiscal Year 2011

COMMITTEE ON
WAYS & MEANS REPUBLICANS
RANKING MEMBER, DAVE CAMP

Press Release

FOR IMMEDIATE RELEASE **December 2, 2010**

Jim Billimoria or Sage Eastman **(202) 226-4774**

Camp Announces Vote on the Final Proposal Put Forth by the Chairmen of the President's National Commission on Fiscal Responsibility and Reform

Washington, DC ï Today, U.S. Rep. Dave Camp (R-MI), the Ranking Member of the Committee on Ways and Means, issued the following statement with regard to the final proposal put forth by the Fiscal Commission co-chairs, Erskine Bowles and former Senator Alan Simpson.

ñChairmen Bowles and Simpson deserve a great deal of credit for undertaking this monumental task and providing the Congress and the nation with a substantive proposal for how to tackle our debt and deficit problems, both of which we must do. Their recommendations detail the tough choices ahead; choices I am willing to make.

ñHowever, I cannot support the proposal for two primary reasons. First, despite generally heading in the right direction on tax reform by broadening the base and lowering the rates, the proposal would impose higher taxes to cover higher spending. These tax increases would impede the economic growth we need to create jobs in this country. Second, the report fails to address the increased health care spending that would result from the new health care law. Health care spending is the number one driver of our debt and if we are serious about reigning in entitlement spending, the health care law must be a part of that effort.

ñAgain, I want to thank Chairmen Bowles and Simpson, as well as my fellow commission members, for their efforts and for advancing this important debate. As Chairman of the Ways and Means Committee, I intend to use the work of this Commission as the starting point for many hearings on how we tackle our debt and deficit problems while re-establishing a vibrant, job-creating economy.ò

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Statement of Senator Tom Coburn, M.D.
National Commission on Fiscal Responsibility and Reform

In the weeks since the Commission issued it recommendations, more than $80 billion has been added to our national debt, which now stands at more than $14 trillion.

Within months Congress is expected to increase the debt limit, adding even more to the burden of debt on future generations of Americans. Yet, no action has been taken to reduce or even slow the growth of the unsustainable deficits created by Washington's addiction to borrowing and spending, and eventually leading to the creation of the Fiscal Commission. Now, both Congress and the President appear prepared to ignore our recommendations, which they sought to help solve a problem they could not.

As a physician, I am trained to identify the source of an ailment, not merely treat its symptoms. Often, treating only symptoms help a patient feel better for a short while, but delay in addressing the underlying disease can make it more difficult to cure the individual. This same phenomenon is occurring today in Washington. Congress continues to borrow and spend, putting off difficult choices that may be painful today but will improve the long-term prognosis of our nation and the American Dream. The real disease in this country is we have abandoned the very foundation of the American Revolution, which is limited government. The liberties we often take for granted as a nation are at risk because of the unrestrained size and cost of our government.

We have encouraged dependence rather than self-reliance.

We have replaced limited government with limitless government.

We have promised hope but offered debt.

Our current generosity should not be paid for by risking the security of future generations, our seniors, or our nation. And yet, this is the current course of Congress. The impending financial doom threatens every American, from our parents and grandparents who rely on Social Security and Medicare, to our children and grandchildren who will inherit an insurmountable debt and a lower standard of living resulting from today's unaffordable excesses. Our indebtedness to foreign nations, many hostile to the principles we hold dear, also threatens our national security and the economic foundations of our nation that provide opportunity for all Americans.

The time for action is now. Long before skyrocketing growth in government spending causes our national debt to triple and tax rates to double, our economy may collapse under the weight of the crushing debt we face. The plan developed by the Commission, while incomplete and imperfect, is a significant first step to help America avoid this fate and secure our future freedom. This plan is only the first down payment on very real and difficult sacrifices each of us will have to make. From the tax code to spending and entitlement programs, every corner of the federal budget is ripe for savings and reform. Real and comprehensive tax reform is desperately needed to end special interest tax benefits, improve the competitiveness of American enterprises and small businesses, and ensure a fairer distribution of the tax burden and a simpler code benefitting everyone. Before asking even more from taxpayers, Congress must ensure no federal funds are wasted as a result of inefficiency, mismanagement, duplication, or unnecessary government programs. In addition, those who benefit from the taxes of others have an obligation to pay their own taxes and be better stewards of the hard-earned dollars they have been entrusted.

Congress' inability to set priorities and place the long-term future of the country above short-term whims and wishes has placed us on a perilous path. We have abandoned the principles that made America exceptional—independence, personal responsibility, and self-reliance. It is not government that made us great, but the people—those who asked for little and worked tirelessly, making considerable personal sacrifices for the good of their families, communities, and country. The call for restraint in Washington and increased individual accountability from all citizens does not lessen our desire or obligation to help those in need. A nation in financial ruin and beholden to creditors will have little control over its own affairs, but actions of fiscal austerity today will ensure our ability to provide for the disadvantaged in society with true compassion and generosity for years to come.

The debt crisis is a threat not only to our way of life, but our national survival. History has not been kind to great nations who borrowed and spent beyond their means. But we can still cheat history. Our potential to recapture the real character and success of America only will come if we reaffirm our commitment to the American Revolution and preserve the promise of the American Dream. The charity we provide today must be paid for with sacrifices today, not by sacrificing the future.

Additional Views of Senator Kent Conrad
December 2010

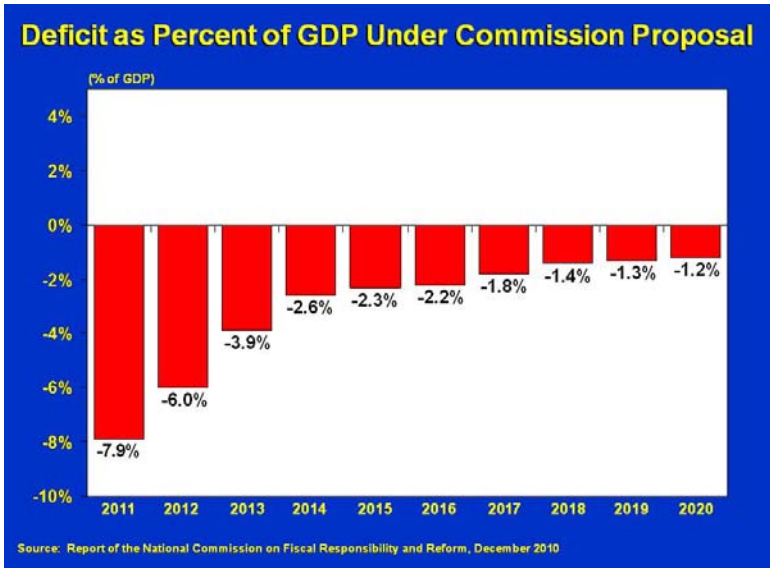
Three years ago, my colleague and friend, Senator Judd Gregg, and I decided that Congress needed a special process to address one of the most significant threats facing our country – our rising federal debt. To that end, we proposed legislation to create a bipartisan commission that included Members of Congress and the Administration and would look at all aspects of the federal budget — spending and revenue — and make recommendations that would be assured a vote in Congress. We started that effort before the global financial crisis, before TARP and the economic stimulus, and before countries like Ireland, Greece, Spain, and Portugal were faced with economic crises that have demonstrated the real consequences of unchecked national debt. In the years since, our debt problem has become more acute and the need for prompt action ever greater.

The United States is at a defining moment. Last year, we borrowed about 40 cents of every dollar that we spent. Our revenue as a share of national income is the lowest it has been in 60 years. Our spending as a share of national income is the highest it has been in 60 years. That is not sustainable. We are headed for a fiscal cliff. We can either look the other way and hope somebody else does something, or we can act.

When President Obama announced his National Commission on Fiscal Responsibility and Reform, he charged its 18 members with a very serious responsibility. Our obligation was not just to produce a plan that would bring America back from the brink, but to do so in a bipartisan way. And just as Senator Gregg and I believed was so important, everything was on the table — spending and revenues. The Commissioners, just like Congress, would have to make compromises to get this important job done.

Even though the Commission's final report, "The Moment of Truth," did not get the necessary 14 votes to ensure it is taken up by Congress, the Commission has made a major contribution by putting this issue on the national agenda. As a result, the public has a much better understanding of the dangers of inaction and the tough choices we face. The groundwork has been laid for progress to be made going forward.

Eleven of us — five Democrats, five Republicans, and one Independent — have agreed on a far-reaching package that would provide nearly $4 trillion in deficit reduction by 2020. The plan would cut spending by $2.2 trillion over the next 10 years and reduce interest payments by $673 billion, reform the tax system, and secure the solvency of Social Security for the next 75 years. It would reduce the deficit from roughly 8 percent of GDP in fiscal year 2011 to 2.3



percent in 2015 and 1.2 percent in 2020. The debt would fall to 60 percent of GDP by 2023 and 40 percent by 2035. These levels would set the stage for our nation's continued prosperity well into the future.

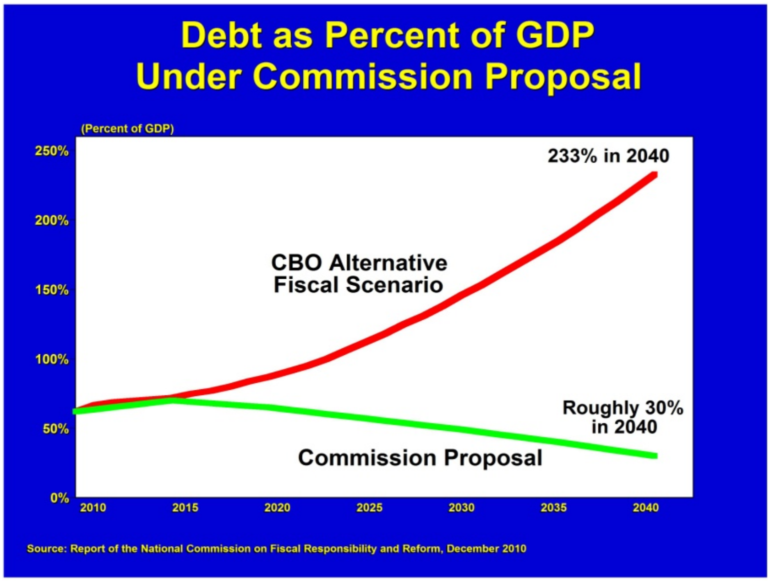
Importantly, the deficit reduction would be phased in slowly to avoid harming the nation's economic recovery. The plan also recognizes the need to take additional steps now to strengthen the economy, including a partial payroll tax holiday. And it includes critical safeguards to protect the most vulnerable in our society.

One of this plan's most notable achievements is that it embraces fundamental reform of the tax code. It would make the tax code more efficient, helping American businesses to compete in the global marketplace. It would make the tax code fairer. In fact, it would actually make the tax code more progressive than if we extended all the middle-class tax cuts and allowed the tax cuts for the wealthiest to expire. And it makes clear that revenues, as well as spending, must be part of the solution to our deficit problem.

The plan would not eliminate the tax benefit for mortgage interest. Under current law, the mortgage interest deduction is capped at $1 million of mortgage debt, and only taxpayers who itemize can claim it. In the tax reform scenario provided in the report, that cap would be lowered to $500,000 and would be restricted to primary residences. And the deduction would be converted into a credit, to expand its reach to all taxpayers and to better target the benefit to encourage homeownership. Only wealthier taxpayers would see their benefit reduced under these changes.

The plan also makes necessary and prudent changes to Social Security. If we fail to act, Social Security will go permanently cash negative in just five years. By 2037, the Social Security Trust Funds will become insolvent and all beneficiaries will see a 22 percent cut in benefits. The consequences of inaction are simply not acceptable.

This plan extends Social Security's solvency for at least 75 years and puts the program on a more sustainable path beyond that. It raises the retirement age to account for the population's



longer life expectancy, but only very gradually – reaching 69 by 2075. At the same time, it strengthens the safety net for seniors by adding a new minimum benefit guarantee for full career workers, by bumping up support for our oldest seniors and the long-time disabled, and by including a hardship exemption for those unable to work past age 62. Savings in Social Security are used only for extending the program's solvency, not for deficit reduction.

To be clear, I am supporting this plan as a package, because it represents genuine bipartisan compromise with both Democrats and Republicans making concessions. I certainly would have done some things differently if I were writing it myself. But even though I don't like everything in this package, I like even less where our country is headed without it.

The supermajority vote in favor of the Commission's report sends an important message. We have proven that Democrats and Republicans can come together to address the debt crisis facing our country. A responsible and realistic bipartisan package is on the table, and the national attention is focused on this issue.

It is now up to the President and Congress to finish the job. That is why I am calling for a national fiscal summit, with the President and bipartisan leadership of the Senate and House sitting down together to finalize a plan. It is time to get this job done and secure our nation's economic future.

December 23, 2010

Messrs. Bowles, Simpson, and Reed,

In our first Commission meeting, I mentioned that in my travels around the world, my observation has been that successful countries were able to act with collective purpose, with the political will to get things done.

We have a serious national debt problem, and it has global implications. We are being watched by countries with similar problems looking for a model… and more importantly we're being watched by countries who consider us past our prime because we can no longer rally as Americans to accomplish the tough things. That we've come to a point where we'd rather revel in our discordant pluralism than act with collective purpose as Americans. That we no longer have the political will to do the tough things required in life.

As a country we need to stop the demagoguing where everyone just runs to their neutral corner and yells and screams at the other guys. The American public is smarter than that yet no one is giving them the facts. We need to be capable as a Government of having a more nuanced thoughtful conversation amongst ourselves and with the public.

The facts are that we had a net national debt before the recession of $6 trillion and today it's $9 trillion. Forty five percent of our debt is held outside the US with about $1 trillion of the money loaned to us by China. Over the next 10 years, even with optimistic economic and cost growth assumptions, that debt grows to $20 trillion in 2020! Ten years from now our interest bill alone will be a trillion dollars a year. We believe generally that millions are a lot, some of us deal with billions in our work lives, but a trillion is difficult to grasp. So let's put it into perspective. If you had spent a million dollars a day since Jesus Christ was born 2010 years ago, you would still not have spent a trillion dollars. And that will be our annual interest bill.

The American public is on to the right issue but for some of the wrong reasons. Many want to point to the quote "Bush" tax cuts or the stimulus or earmarks as "the issue". While important, those are all sideshows as we accumulate $20 trillion in debt over the next 10 years. The big issue is that my generation, the baby boomers, is retiring. And as we move through Social Security, Medicare, Medicaid we will crush the system. The problem is real… and it is structural. We can't grow our way out of this issue.

The Commission has proposed about $2 ½ trillion in spending cuts and a trillion in tax increases cumulatively over the next 10 years. On spending that's about a 5% reduction over what was planned to be spent. It still increases about 4% a year for 10 years versus the 5% annual growth currently planned. Similarly on taxes, the $1 trillion is about 3% more than what was planned.

This is hardly revolutionary. Yet I've never seen such hyperbole, hysteria, and histrionics as that which accompanies the discussion surrounding every piece of taxes or spending. I honestly don't know how politicians get their job done with these dynamics.

But this is a job that needs to get done. These difficult political decisions will get made one of two ways. The first is we can do it thoughtfully and proactively. The second is we can wait for the bond market to force it upon us, and that will be decidedly harder, more abrupt, and unpleasant. We can ask Greece and Ireland what that's like… and soon Italy, Spain, and Portugal. And when the decline does come, it doesn't come in small monthly doses giving us 20 months to adjust. It happens overnight when the herd runs against you and fear grips the market. The American public deserves better.

Many people have a hard time relating to what the bond market is or why they should be concerned. So think of it this way; about $4 trillion of our debt today (about 45%) is money loaned to us by foreign countries with a trillion dollars of it loaned to us by China. What happens when they don't want to loan us any more money? Where do we go? What do we do? What happens when the bank (in this case foreign countries like China) doesn't want to loan you more money? We've benefited a lot in this time from being viewed as the world's reserve currency, the safe haven if you will. What happens when we're not viewed that way anymore? When we have to raise the price we pay (i.e. interest) to attract the loans we need from foreign countries? When the interest rates Americans have to pay for home, schooling, and car loans go up for the same reasons, thereby hurting the very people we claim to be protecting? Finance is not an exciting subject, but this goes to the core of our own economic and Homeland security.

I don't like everything that's in this proposal. I don't think it's big enough. And it goes nowhere near far enough to sort out our most pressing spending issue, Medicare / Medicaid. But I do know we need to start somewhere. There is plenty of blame to go around on how we got here. There is also plenty of opportunity to work together and demonstrate the political will some countries in the world believe we no longer have.

While I'm not enamored of everything in the proposal and wish it went further, I do believe this is a time for us to pull together as a country. We have to start somewhere and we need to start now. Democracies seem uniquely suited to putting up the traffic light after the fourth accident. We've already seen the first accident. It's time to act.

There does come a time when we have to act with collective purpose to do what's best for the country. We have to come together… Democrats and Republicans, old and young, business and labor… stop arguing, and start agreeing. This is one of those issues. This is not a time to pull apart. This is a time to pull together.

The choice is simple… and stark. Are we so focused on our entitlements that we've forgotten what made us great… hard work, math and science education, technical skills, a dynamic economy, a sense of purpose, relying on ourselves and not blaming others, taking personal ownership of our future, being able to individually act in our self interest while not forgetting our collective purpose.

Some people in the world, and some countries even, believe our time is past. That a once great economic and military power has taken the first steps on the path to decline. That we cannot resolve our internal differences to make the difficult choices needed as a society. That having achieved greatness, we've forgotten what got us here... and can no longer act.

We have a choice.., are they right?… or are we still a force to be reckoned with? Do we still have the Political Will to be a great country?

I believe we do,

Dave Cote

Statement of Senator Richard J. Durbin
For the Final Fiscal Commission Report

The question my closest political friends are asking is this: why is a progressive like Dick Durbin voting for this fiscal commission report?

Here's why: politicians, left or right, Democrat or Republican, have to acknowledge the deficit crisis our nation faces. Borrowing $.40 out of every dollar we spend for missiles or food stamps is unsustainable. Being indebted for generations to China and OPEC does not make America a stronger nation.

When we engage in the critical decisions about our nation's future budgets, I want progressive voices at the table to argue that we must protect the most vulnerable in our society and demand fairness in budget cuts. Today I am claiming a seat at that table.

To use an analogy only a Senator would make, I don't view this as a vote on final passage of a bill. I view this as a vote on a Motion to Proceed to begin debate on the floor. If this were final legislation before the Congress, I'd vote No. But it's not: this is a report that is meant to kick start the serious debate on the debt that the United States Congress absolutely must have. That's why I'm voting Yes.

When families are figuring out how to pay the bills they don't cut the insulin for grandma, and they don't cut the food for the kids.

That's the way we should look at this debate, too. Starting now, I will begin working with my colleagues in the Senate to address the debt in a balanced, progressive way.

In some areas I'll borrow heavily from this report. In others, I'll do better.

To be clear on where I stand, here are five specific areas where I intend to improve upon the recommendations in the report as we begin the serious legislative process:

First, on discretionary spending. The cuts in this proposal are too deep, too fast. A balanced plan would split the pain of paying down the debt evenly between spending cuts and revenue increases. As an appropriator I will work hard – as I always have – to spend every taxpayer dollar wisely, to save every penny we can, to look for savings everywhere we can. But that's not the same as finding savings at the expense of those who need government assistance most, and this proposal takes too much too soon from the neediest in our country.

This plan also claims to save $16 billion by eliminating earmarks. That makes no sense. You have to lower the discretionary caps by that amount if you want to realize that in savings. Otherwise, the money is simply allocated by the executive branch. Fully transparent earmarks can be a sensible way to invest taxpayer dollars in high-quality projects that the public can fully review.

Second, on Social Security. We should reach 75-year solvency for the most important program in America in a fair and balanced way between benefit reductions and revenue increases – 50/50. To do that, I will pursue speeding up the date by which we collect payroll taxes on 90 percent of wages so that we reach that revenue goal – the same goal the noted liberal Alan Greenspan recommended in 1983 – far earlier than 2050. I will use that additional revenue to alleviate the benefit cuts that the proposed changes in the "bend points" would create.

Third, on health care. It's completely unfair that this proposal would treat the federal employees as guinea pigs in a voucher scheme for health insurance. If we're going to implement such an idea, then federal employees should be able to use their voucher to buy insurance from a public plan. That competition – from a plan that has no marketing costs and no million dollar CEO salaries to pay – will certainly drive down the costs of medical care. That in turn will reduce the national debt.

We also should give Medicare beneficiaries the option of a Part D prescription drug plan run by the Medicare program, which could negotiate effectively for the best prices and wouldn't have a profit motive.

Fourth, on taxes. We should use far more tax revenue for debt reduction than this proposal calls for. If we're losing $1.1 trillion in tax earmarks each year, surely we can put more than $80 billion of that to the debt.

Finally, on medical malpractice. I do not support the report's section on medical malpractice for two main reasons. First, the only way the Commission proposes to save costs is by reducing the ability of injured patients to recover for legitimate harms they have suffered. Not only is this unfair, it is unlikely to work. We cannot reduce costs in the area of medical malpractice unless we decrease the rate of medical errors that cause harm, and we also have to require the malpractice insurers to rebate excessive premiums back to doctors and to control their insurance defense costs. However, many of the Commission's proposals will likely increase medical errors by diminishing the accountability of the providers who cause them, while at the same time making it harder for victims to be made whole for the harms they suffer.

Second, I seriously doubt the Commission's estimate of the savings their proposed reforms would provide. I am not aware of any CBO scores that have analyzed several of the Commission's specific proposals, except that CBO has said the Commission's proposal relating to joint-and-several liability would actually increase costs. And the Commission's newest proposals to create a separate healthcare court system and practice guideline "safe havens" have never been considered before and the Commission provides no explanation of how they would work or how much they would cost. The Commission's section on medical malpractice is not well thought out, and should have been left out of the Report.

Let me be clear. This is a very good step forward for this debate. Erskine Bowles and Alan Simpson have given this country a valuable gift by raising the profile of this very real debt challenge that we face as a nation.

The pressure to act is growing. I intend to do just that.

Statement of Ann Fudge
Member, National Commission on Fiscal Responsibility and Reform
Friday, December 17, 2010

While the final report of this Commission has been issued, the Real Work must now begin. Time is of the essence. Our elected leaders must demonstrate the Political Will to move beyond party ideology and focus on what is best for all Americans.

This report provides a blueprint for action and I urge Congress to act. The debt continues to grow and unless we agree upon a plan to address it, our ability to remain competitive in the global economy will be permanently diminished.

There is no either/or answer to the debt and deficit problems...both costs and revenues must be addressed. The opportunities to improve productivity and effectiveness in our government are massive. Business leaders have the skills to help government do this. We must "Cut & Invest" to have a government that is run more efficiently.

Our tax code was written at a time when the phrase "global competitiveness" was rarely used. It is time to reform and simplify the tax code to reflect the realities of the 21st Century. Our report provides a framework to evaluate various tax levels. We all agree that "Tax Earmarks" must be addressed.

It is clear from the conversations following the release of this report that the American public is ready to step up to the challenge. I am particularly grateful to the Republican and Democratic Senators who support the Commission's recommendations. While I'm an Independent, their actions give me hope that people can move beyond party ideology to do what is right for our country.

I thank President Barack Obama for the opportunity to serve on this Commission and I thank our Chairmen, Erskine Bowles and Alan Simpson, who worked tirelessly. I will continue my personal efforts to garner public support for this plan and I am hopeful that thoughtful political leaders will do the same.

Statement by Senator Judd Gregg (R-NH)
For the Published Report of
The National Commission on Fiscal Responsibility and Reform
December 1, 2010

The National Commission on Fiscal Responsibility and Reform should be commended for its tremendous effort over the past ten months. Co-Chairmen Alan Simpson and Erskine Bowles have shown great leadership, and members of the Commission have committed countless hours to the critical task of reducing federal spending, deficits and the debt. The process has been intense, informative, substantive and thorough, and the ideas brought to the table have been exceptional.

This incredible effort has been about America's greatness. We are the most exceptional nation in the world, but the world is looking at us and wondering, "How could such an exceptional nation have gotten in such trouble?"

How could we be on a path that will essentially drive us into some form of bankruptcy? It will be an unusual form of bankruptcy, but it will be bankruptcy because our debt will be unsustainable and our capacity to pay the interest on that debt will threaten the value of our currency and the lifestyle of every American.

We, the people who are charged with the governance, have a responsibility to keep that from happening.

The facts cannot be denied. Because of the demographic shift, in which we will go from 35 million retired people to 70 million retired people over the next five to seven years, and for other reasons, our government is growing at a rate that is simply unaffordable and unsustainable. If we continue on this course, prosperity for Americans will be jeopardized and we will be the first generation in the history of this country to pass a less prosperous and secure nation onto our children.

That outcome is antithetical to the American culture, which demands that the next generation should have more opportunity and be more secure than the prior generation. That is the essence of America, and so this really is about America's greatness.

The Commission Co-Chairmen's proposed plan is not perfect, nor is it global. It does not solve the problem. It just allows us to put in place a pathway that says to Americans and the world, "We are serious about doing something about the problem."

The problem will still exist even if everything in the proposal were to be adopted because we would still have a debt-to-GDP ratio of between 60% and 70% by 2020. That ratio is far above our historical position, which should be no more than 40% if we are going to be solvent.

The package does take a definitive step in the right direction, because it does significantly reduce the deficit and the debt; it does bend the increase in debt in the out-years; it does bring down the deficit; and it addresses some of the glaring problems with our fiscal policy.

On the discretionary spending side of the ledger, spending is reduced to 2008 baseline levels by 2013, which is a rather dramatic cut.

Tax policy is the big concern for my side of the aisle because the tax policy in this plan will generate revenue, and how that revenue is used is the issue. It is unconscionable that we debate constantly about raising tax rates. Instead, we should debate about reducing rates, and how to reduce rates in a way that generates economic growth.

The core proposal in this plan, almost all of the revenues in the bill, with the exception of the Social Security which is held in a separate account, is driven by a tax policy that takes us out of this box of debating whether or not we'll raise rates and into the proper playing field, which is how to reduce rates down dramatically and allow money to be invested for the purposes of creating prosperity and economic activity, rather than to be invested for the purposes of avoiding taxes.

The "Zero Deduction Plan" within the Commission's proposal is like the Reagan/Bradley tax reform of the 1980s on steroids. I served on the House Ways and Means Committee in 1986 when we did (passed/debated?) Reagan/Bradley and it took a lot of heavy lifting to eliminate some of the deductions and get the top tax rate down to 28%. The Commission's plan takes that approach and puts it in overdrive. If we implemented the "Zero Plan," the explosion in economic activity in this country would be extraordinary, and the tax numbers in this bill would be almost irrelevant.

The tax debate should not be on whether tax rates go from 35% to 39% or from 39% to 42%; it should be whether rates go from 35% to 21% and in the process, we implement a better tax law that delivers a more effective use of dollars and capital formation in this country. Even though there will be concern about where these revenues go, because there would be a lot of new revenue, it is the right debate.

It has been an honor and a privilege to work with Senator Conrad as Chairman of the Budget Committee, and he has really driven the effort to recognize the regular order can't handle the issue of Social Security, which is why this Commission was created. In the Commission's plan, Social Security has been made solvent for 75 years. You can tinker with the ways it was done, but there are only four or five different parts in Social Security and everybody knows it must be addressed.

On the issues of spending restraint and tax policy, the Commission's plan moves dramatically in the right direction. Regarding health care, there are some health care initiatives in here, but we've been through the health care debate and we'll need to revisit it. The Commission made the right decision to not go to the core of that debate, but eventually we will have to do substantive things which will impact health care.

Regardless of whether the Commission's plan garnered support from all of its members, this document becomes the memo that controls the meeting, to use Henry Kissinger's words. We have reached a point where it's time to govern. It's that simple. As a nation, we either govern, or we risk losing our greatness. The Commission's plan is a template for beginning that governance and it has my support.

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OFFICE OF CONGRESSMAN JEB HENSARLING
FIFTH CONGRESSIONAL DISTRICT OF TEXAS

129 Cannon House Office Building
Washington, DC 20515
(202) 225-3484 • Fax (202) 226-4888 • www.hensarling.house.gov

FOR IMMEDIATE RELEASE **CONTACT: George Rasley**
December 3, 2010 **(202) 225-3484**

Hensarling Statement on the Final Report of the National Commission on Fiscal Responsibility and Reform

"I am unable to support it because at its core it calls for a massive tax increase on the American people without fundamentally addressing the largest, long-term driver of our nation's debt crisis – rising health care costs."

Washington, D.C. – Congressman Jeb Hensarling (TX-05), a member of the National Commission on Fiscal Responsibility and Reform and the second ranking Republican on the House Budget Committee, issued the following statement after declining to endorse the commission's final proposal put forward by Co-Chairmen Erskine Bowles and Senator Alan Simpson:

"Commission Co-Chairmen Bowles and Simpson have put together a serious and provocative proposal. Their leadership is to be commended. Their proposal helps illustrate the magnitude of the crisis. Their proposal is worthy of congressional debate. Although I embrace key elements of their proposal, I regrettably cannot in good conscience endorse it.

"I am unable to support it because at its core it calls for a massive tax increase on the American people without fundamentally addressing the largest, long-term driver of our nation's debt crisis – rising health care costs. You cannot change the ruinous spending path of our government if you leave the recently passed health care law virtually untouched and leave out fundamental reform of Medicare. It cannot be done. In fact, this proposal would actually double down on the recently enacted health care law and drive more Americans into government-run health care through repeal of the employee health care exclusion. The nation has a fiscal crisis because the government spends too much, not because the American people are under-taxed.

"It is neither desirable nor necessary to increase taxes to address the nation's fiscal crisis. First, according to CBO, taxes as a percentage of GDP are already going up over the course of the next generation from the historic norm of approximately 18%, while spending is due to double from 20% to 40%. Secondly, the taxes necessary to close the fiscal gap would lower our standard of living and make us the most highly-taxed industrialized nation in the world. Finally, without effective spending limits, there is no guarantee increased taxes would simply not be used for even more spending.

"Again, further tax increases on the American people should be off the table. If put on the table, as they are in this plan, fundamental health care reform and a total spending cap must be put on the table as well. In this plan they are not. Using history as my guide, when tax increases have been called for in the past to be coupled with spending restraints, the tax increases usually materialize and the spending restraints do not. We should all remember that ultimately the cost of government is what it spends not what it taxes.

"I applaud the Co-Chairmen's proposal for recognizing the need to fundamentally reform our nation's tax system. The system we have today is simply too confusing, too complex, and is a drag on job creation and economic growth. In order to create jobs and continue to grow our economy in the 21st century, I believe we must move towards a simpler, flatter tax system that ensures we are competitive in the world. Economic growth is clearly part of the solution to our crisis. Getting rid of so-called 'tax expenditures' in order to lower marginal rates would undoubtedly bring about both economic growth and more tax revenues. However, despite lowering marginal tax rates and the corporate tax rate, this plan still results in a $2 trillion tax increase.

"I'm pleased the proposal includes discretionary spending caps. It should include mandatory spending caps as well. However, I am concerned about the firewall prescribing specified levels of discretionary spending reductions to both security and non-security spending. I believe the first responsibility of Congress is to provide for the defense of the American people, and we should spend every penny necessary to defend our nation. However, at the same time, like any other government agency, spending in the Department of Defense is not immune from waste, fraud, and abuse. I believe that we should scrutinize every penny of spending across the entire federal budget – including the Pentagon – to ensure that taxpayers money is not being wasted. However, I am concerned that arbitrary levels of cuts to defense spending could unnecessarily endanger our national security.

"With respect to Social Security, personally I believe in voluntary, personal carve-out accounts with a government guaranteed floor for those under 55 as contained in the Roadmap for American's Future. I want to use the power of compound interest to grow our way out of this. That is not in this plan, but having said that and while I do not agree with lifting the earnings cap to increase the share of revenues collected by Social Security, I would be more than satisfied to at least save Social Security for the next couple of generations including the generation represented by my 8 year old daughter and my 7 year old son, and support the other proposals that are included in this plan.

"I came to the commission's deliberations with an open mind, but not an empty mind. Along with others, I brought solutions. I advocated for the adoption of H.R. 4529, Paul Ryan's Roadmap for America's Future; H. J. Res. 79, a Spending Limit Amendment to the Constitution co-authored with Mike Pence of Indiana and John Campbell of California; and H.R. 3964, the Spending, Deficit, and Debt Control Act, which would impose binding caps on spending, establish biennial budgeting, and many other budget process reforms to ensure that the federal budget does not grow faster than the family's budget ability to pay for it. Regrettably, very few of these ideas found their way into the final report.

"Despite being unable to support the commission's final product, I want to again commend the work and dedication of Erskine Bowles and Senator Alan Simpson. I firmly believe that when we as a nation come together on a solution to our nation's fiscal crisis, the work done by Erskine Bowles and Senator Simpson will have played a large role in getting us to that point.

"We are undoubtedly on the verge of being the first generation in America's history to destroy the American dream. I do not believe the American dream is a shiny new Cadillac. I do not believe the American dream is home ownership. I believe the American dream is leaving your children with greater freedom, greater opportunity, and a higher standard of living than you enjoyed. Every generation in our country has always kept faith with the American dream. Unless we solve our fiscal crisis very soon we will not have kept that faith. We will not solve our fiscal crisis by doubling the tax burden on the next generation in order to balance the budget. We will not solve our fiscal crisis by monetizing our unconscionable debt. We can only solve our fiscal crisis by reforming current entitlement programs for future generations. Hopefully, the work of the commission will lay the foundation for the national "adult conversation" and Presidential leadership necessary to achieve that goal.

Statement of Alice M. Rivlin
Member, National Commission on Fiscal Responsibility and Reform
Friday, December 3, 2010

I am honored to have served on this Commission and I support the Co-Chairs' plan described in "The Moment of Truth." I admire the Co-Chairs for their unstinting efforts to reconcile competing ideologies and craft a plan that will control future debt and help restore American prosperity. Compromise is necessary to avoid deadlock and solve otherwise intractable problems. The co-chairs have done a remarkable job of engineering a credible compromise without retreating from the problem.

The federal budget is on an unsustainable path. Decisions made over many years by both parties have created spending commitments that will rise faster than the economy or federal revenues can grow. Without a radical shift in policies, the gap between spending and revenues will continue to widen even after the economy recovers from the recession, as the baby boom generation retires, people live longer, and the cost of medical care continues to escalate. We will not be able to borrow at projected rates.

If we do not act soon to rein in future deficits, we will destroy America's prosperity and capacity for leadership. Faith in the safety of U.S. Treasury bonds has allowed us to borrow huge sums in world markets at low rates. It has also made us dependent on foreign creditors and vulnerable to shifts in their confidence. Loss of creditor confidence could lead to a rapid fall in the value of the dollar, a spike in interest rates, and a far more serious recession than the current one. It is impossible to tell when a loss of confidence will occur, but when it does it will be too late to act. We need to take aggressive steps to control the growth of debt before catastrophe occurs.

The economic damage from a debt crisis will hurt all Americans, especially those with low incomes. The plan seeks to control the debt without injury to the most vulnerable, but it also recognizes that a debt crisis could trigger a deep, prolonged recession. The poor and low-wage earners suffer most in a downturn and have the greatest stake in averting a debt crisis.

Putting the budget on a sustainable path requires bipartisan action both to reduce the growth of spending and to increase revenues. All the possible actions to control debt are unpopular. Fierce opposition greets any attempt to raise revenues or reduce spending. The only feasible way to control the debt is for both parties to agree on a compromise plan reflecting tough choices. This Commission has spent many hours in civil discourse about the difficult options for controlling debt. The Co-Chairs have distilled those discussions into a credible compromise plan that deserves the support of the Commission and can form the basis for legislative action. It also holds the promise of improving the efficiency of government, directing spending to higher priorities, and creating a simpler, fairer, and more pro-growth tax system.

Like all my fellow Commissioners, I have strong views and would have preferred a somewhat different mix of policies. I believe the recovery is still fragile and that an immediate payroll tax holiday would help ensure more robust growth. I would have shifted the plan's overall balance more toward revenue increases and less toward spending cuts. I worry that cutting discretionary spending sharply as soon as FY 2013 may slow the recovery. While I applaud the drastic simplification and reform of the income tax proposed in the plan, I believe that a broad-based consumption tax is also needed to fund federal spending as the population ages and America modernizes its infrastructure to stay productive and competitive. I do not believe it is wise or even feasible to cap federal revenues at 21 percent of GDP.

Despite the fact that the mix of policies differs somewhat from my personal preferences, I strongly support the compromise plan, because I believe bipartisan compromise is necessary to avoid debt crisis and create a stronger America.

STATEMENT FOR THE RECORD FROM CONGRESSMAN PAUL RYAN

DECEMBER 3, 2010

The Fiscal Commission has been a success. Due in large part to the leadership of the Co-Chairmen, Erskine Bowles and Alan Simpson, the Commission helped launch a critically important debate facing this country: how to get the Federal government's fiscal house in order and ensure a prosperous future for coming generations of Americans.

The task was extraordinarily difficult in an equally difficult environment. Despite the obstacles, the Co-Chairman successfully advanced a comprehensive and credible plan, demonstrating the magnitude of the government's spending and debt problems. Although I could not support the plan in its entirety, many of its elements surely are worthy of further pursuit. They establish a much-needed foundation and justification for fundamental policy reforms:

- **Social Security Reform:** In one of their most important steps, the Co-Chairs propose to make Social Security sustainably solvent by achieving solvency on a cash basis in the 75th year of their proposal. Other significant strengths of their plan include increasing the progressivity of the benefit formula; indexing the retirement age to increases in longevity; and reducing poverty among the elderly.

- **Discretionary Spending:** The Co-Chairs' propose to establish statutory caps on discretionary spending and thus make an immediate contribution to addressing the government's spending problems. While I support caps on discretionary spending, I do not support a firewall between security and non-security spending at the levels recommended by the Co-Chairs. This would reduce Congress' flexibility to achieve discretionary savings and force deep reductions in defense spending with possible adverse impacts to the Federal government's highest priority.

- **Fundamental Tax Reform:** The Co-Chairs' tax reform recommendations acknowledge that lower tax rates are critical to economic growth and making the U.S. competitive in a global economy. They would result in a more efficient and less distortive tax code with lower rates and a broader base. But the Commission relies too heavily on revenue increases, $2 trillion over decade, with the tax collections reaching 21 percent of gross domestic product [GDP]. Increasing the government's take from the economy hinders growth, and the lack of comprehensive health care spending reforms and a cap on total spending ensures that these revenues will chase higher spending and not be used for deficit reduction.

- **Health Care Reform:** The primary driver of our fiscal problems is government health care spending and the fundamental weakness in the Co-Chairs' proposal is its failure to structurally reform health care. By relying of the faulty architecture of the President's health care law, the proposal facilitates an explosive growth of health care spending in the years ahead. I am grateful to fellow Commissioner Alice M. Rivlin for her work with me in developing an alternative plan to secure and make sustainable Medicaid and Medicare – and appreciate the Co-Chairs' consideration of the proposal.

I cannot overstate my respect for, and gratitude to, Erskine Bowles and Alan Simpson. They have helped put an end to the era of deficit denial. Those who refuse to confront the looming fiscal crisis have nowhere to hide. I am eager to build on this effort in my work at the House Budget Committee – drawing upon specific ideas put forward in the Commission and drawing upon the inspired leadership of the Co-Chairmen.

Nothing short of the American Idea is at stake. The fierce urgency of the moment requires a continued commitment to tackle the debt threat head on, restoring the promise and prosperity of our exceptional nation.

For expanded views from Congressman Paul Ryan: http://www.house.gov/budget_republicans/ryancommissionviews.pdf

A LONG-TERM PLAN FOR MEDICARE AND MEDICAID

ALICE RIVLIN AND PAUL RYAN

NOVEMBER 17, 2010

Our Goal

The Medicare and Medicaid programs are currently the primary drivers of upward pressure on the Federal budget. We aim to show a path to achieving the Co-Chairs' goal of containing the growth this program to GDP +1 percent and to demonstrate that Republicans and Democrats can come together to reform entitlements.

Proposal for Medicare Reform

Create a Sustainable Medicare Program for the 21st Century

A new Medicare program should be created for future retirees (those who first become eligible by turning 65 on or after January 1, 2021). The new Medicare program would provide a payment – based on what the average annual per-capita expenditure is in 2021 – to purchase health insurance. The payment would grow annually at a rate of GDP +1 percent.

The annual payment would be adjusted by income, with high-income seniors receiving a reduced payment and low-income seniors receiving extra support. The payment would also be geographically rated and adjusted for health risk. In addition to a higher Medicare payment amount, low-income "dual-eligibles" would also receive a fully funded account from which to pay out-of-pocket expenses.

In order to receive the Medicare payment, a beneficiary would select a plan from a newly created Medicare Exchange. Health plans which choose to participate in the Medicare Exchange must agree to offer insurance to *all* Medicare beneficiaries, thereby preventing cherry picking and ensuring that Medicare's sickest and highest cost beneficiaries receive coverage.

For those now enrolled in Medicare, or becoming eligible before 2021, the traditional fee-for-service Medicare program would continue. Premiums for the current program would be held harmless from the effects of the creation of the new Medicare program.

Raise the Medicare Retirement Age

In 2021, begin raising the Medicare eligibility age to correspond to OASDI normal retirement age (2 months per year beginning in 2021 and stopping at age 67).

Repeal CLASS Program

PPACA created a new long-term care entitlement for the Medicare program that is set to collect premiums beginning in 2014. The premiums are used to pay for the new health care benefit, and not for the new long-term care program. Since the CLASS program is a new unfunded entitlement, it should be repealed because it will increase the deficit over the long term.

Other Changes

The current Medicare program should undergo a number of small, common sense changes to help achieve long-term sustainability. These savings should include comprehensive medical malpractice reform, combining Parts A and B deductibles and eliminating first-dollar coverage in Medigap plans

Proposal for Medicaid Reform

Convert the Federal Share of Medicaid into an Allotment to States

Beginning in 2013, the Federal share of Medicaid's payments for acute and long-term care services should be converted into an allotment to states.

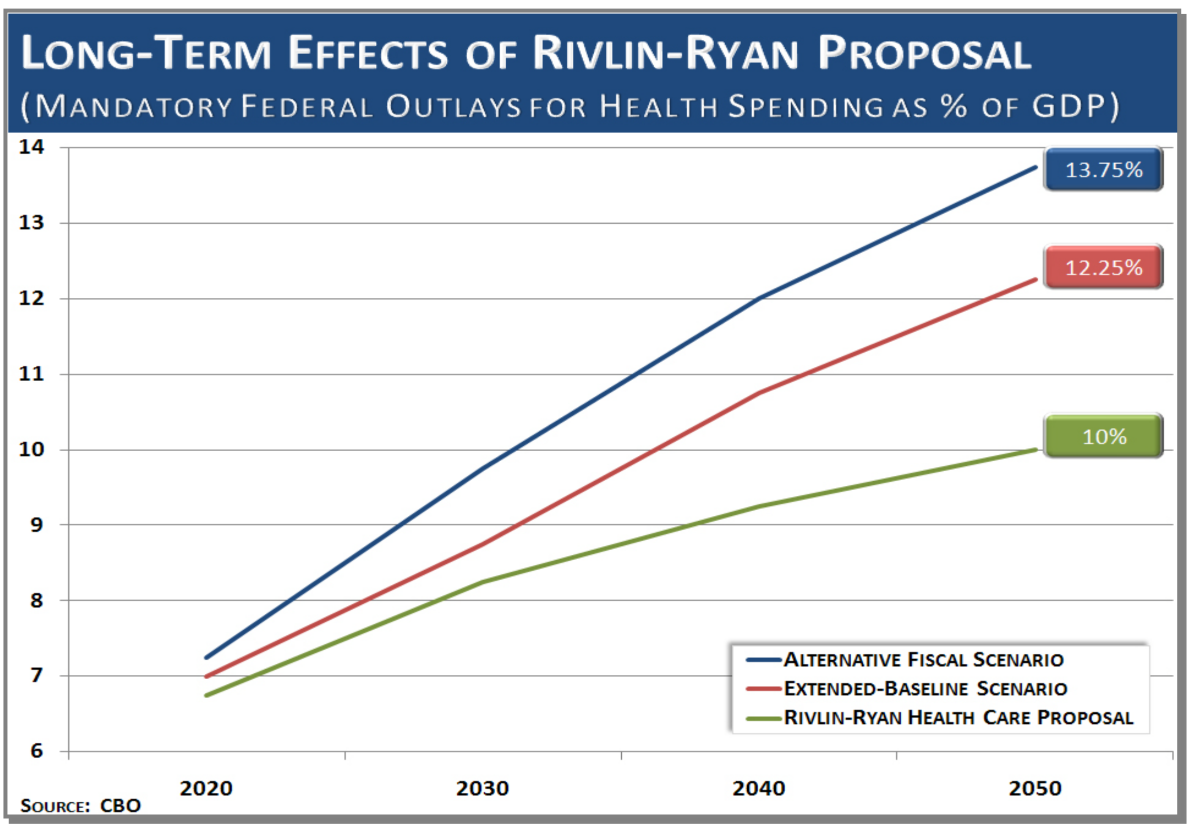
In exchange for slower growth in the Federal government's Medicaid payment, states will have more flexibility in how they use Medicaid funds to meet the needs of their low-income populations.

Each state's initial allotment would be determined by the state's per capita low-income population based on Federal Poverty Level. The state allotment would grow at GDP +1 percent and would be further adjusted for population growth.

Near-Term Effects of Rivlin-Ryan Proposal

Provision	Change in Unified-Budget Deficits, 2011 - 2020 ($ billions)
Change Medical Malpractice Laws	-$60
Repeal CLASS Program	+$70
Modify Medicare Cost Sharing	-$110
Establish Medicaid Block Grants	-$180
Total Savings	**-$280**

Source: CBO



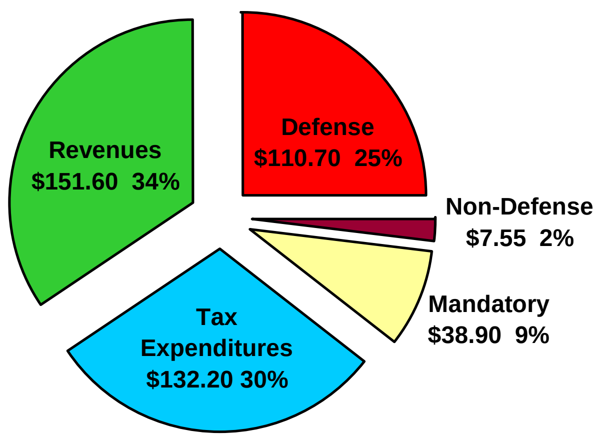
Schakowsky Deficit Reduction Plan

Fiscal Responsibility That Protects the Lower and Middle Class

Overview: The Schakowsky Deficit Reduction Plan is a progressive proposal that will exceed the President's goal of achieving primary budget balance in 2015 while strengthening our economy and protecting lower income and middle class families who had nothing to do with creating the deficit.

Investment: The Schakowsky Plan would **invest $200 billion** into job creation measures over the next two years to jump-start economic growth. Possibilities include the Local Jobs for America Act, funding for infrastructure, education, and law enforcement, extended unemployment insurance, and measures to promote investment in domestic manufacturing and green jobs.

Reducing the Deficit in 2015: The Schakowsky Plan would **reduce the deficit in 2015 by $441 billion**, exceeding the $250 billion target set by the President's goal in that year of achieving primary budget balance (in which all spending is paid for except for interest on the debt). It would achieve that goal by reducing unnecessary spending and increasing revenues in a progressive way. The proposal lists specific recommendations in order to achieve the savings, and also includes $42 billion in additional options for deficit reduction that Congress could choose to include.



Social Security: Social Security has *nothing* to do with the deficit. It has a surplus of $2.5 trillion which will go up to $4 trillion, and without any changes the program can pay out full benefits until 2037. To extend full benefits for the next 75 years, **the Schakowsky plan achieves long-term solvency without making any benefit cuts.** The plan would eliminate the wage cap on the employer side and raise it to cover 90% of aggregate wages on the employee side, apply FICA to all wage income below the cap, and establish a small legacy tax on wages above the cap. Those recommendations would result in surplus funding that can be used to improve the extremely modest benefits that are now provided.

Schakowsky Deficit Reduction Plan

	Option	Deficit Reduction in 2015 ($Billions)	Details
TOTAL		440.95	
Discretionary Non-Defense 7.55	Eliminate the Overseas Private Investment Corporation	0.15	The Overseas Private Investment Corporation (OPIC) subsidizes the foreign operations of many large, private U.S. corporations through financing and insurance supports. .
	Sell excess federal property*	1	Address the 14,000 buildings and structures currently designated as excess and 55,000 identified as under- or not-utilized.
	Reduce unnecessary printing costs*	0.4	Reduce unnecessary printing and publishing costs by allowing certain documents to be released in electronic-only form.
	Other efficiencies*	1	Make double-sided the default setting for copy machines, introduce energy saving technologies and practices to personal computer usage, and eliminate paper paystubs. Based on Administration proposals.
	Implement GAO Recommendations to Reduce Improper Payments by the Federal Government	5	GAO estimates that the federal government made about $99 billion in improper payments in 2009 through 60 different federal programs. Reducing improper payments by 5% would save about $5 billion.

Additional Options:
Require airports to fund a larger portion of the cost of aviation security* ($1.9 B)
Cut federal travel budget* ($0.4 B)
Trim the federal vehicle budget* ($0.3 B)

*Indicates this option was included in the Bowles-Simpson proposal

Updated 11/18/10

Schakowsky Deficit Reduction Plan

Discretionary

Defense
$110.7 Billion

Option	Deficit Reduction in 2015 ($Billions)	Details
Reduce military personnel deployed in Europe and Asia*	12	Reduce # of U.S. soldiers permanentaly stationed on U.S. bases in Europe and Asia (currently about 150,000 people) by 1/3. (Bowles/Simpson draft lists the same reduction but for an estimated savings of only $8.5 billion)
Reduced deployed strategic nuclear arsenal	11.4	Reduce deployed arsenal by 85%, to about 300 weapons
End V-22 Ospreys*	1.9	Full cancellation of the Pentagon's purchase of over 450 V-22s
Buy only one DDG-51 Arleigh Burke class destroyer	1.9	Reduce Navy's plan to purchase two DDG-51 destroyers in 2015, and instead only purchase one destroyer
Buy only two CVN-80 aircraft carriers	1.5	Reduce Navy's order from 3 additional Gerald Ford class nuclear aircraft carriers to only two carriers
Buy fewer littoral combat ships	1.3	Reduce Navy's plan to purchase littoral combat ships from 4 ships per year in 2013 to 2015 to only two ships per year
End some missile defense programs	1.3	Eliminate some of the DoD's missile defense programs
Eliminate procurement of the Expeditionary Fighting Vehice*	0.6	Cancel the Marine Corps' procurement of this amphibious vehicle, as recommended by Sec. Gates
Reduce U.S. ground forces	12.1	Reduce Army and Marine Corps to their pre-Iraq/Afghanistan war sizes
Reduce civilian personnel	8	Proportional reduction in civilian personnel, in accordance with reduction in ground forces
Buy fewer F-35 Joint Strike Fighters	4.7	Cut planned 2015 purchase of 89 JSFs in half
Buy fewer Virginia Class submarines	2.8	Cancel planned increase from one sub per year to two subs per year
Research, development, testing, and evaluation*	10	15% reduction (Bowles/Simpson Draft calls for a 10% reduction, for a savings of $7 billion)
Reduce carrier battle groups	3	Retire two (out of a current total of 11) carrier battle groups
Apply the overhead savings planned by Sec. Gates to deficit reduction*	25	Gates plans to find efficiencies and reduce overhead costs, with a five-year savings goal of $100 billion.
Double Sec. Gates' cuts to defense contracting*	5.4	Double the proposed cuts to contractor personnel who augment defense headquarters staff
Cancel Navy's Future Maritime Prepositioning Force*	1	Cancel "sea-basing" program, which faces technical challenges
Cancel Joint Light Vehicle, Ground Combat Vehicle, and Joint Tactical Radio*	2.3	Army continues to upgrade current fleet of tactical vehicles
Retire two US Air Force tactical fighter wings.	4.5	Savings reflect reduced aircraft, missile, and ammunition procurement costs; reduced personnel costs for approximately 3,000 air force personnel; reduced air wing operations and maintenance expenses; and reduced base operating expenses.

*Indicates this option was included in the Bowles-Simpson proposal

Schakowsky Deficit Reduction Plan

Category	Option	Deficit Reduction in 2015 ($Billions)	Details
Mandatory			
Health Care $31.2 Billion	Robust Public Option	10	Creates a publicly-administered plan (initially using Medicare rates) to compete with private insurance plans in Exchanges.
	Require full drug rebates from drug manufacturers to full premium subsidy eligible individuals in Part D*	6	Ensures that the costs of drugs for individuals enrolled in both Medicare and Medicaid are no higher than Medicare costs.
	Ban Pay-For-Delay	1.2	Ban anticompetitive patent settlements, in which manufacturers of brand-name drugs pay potential generic competitors to stay out of the market.
	Medicare Rx Plan	(Requested score from fiscal commission)	Establishes a Medicare-administered Part D drug plan to compete with private plans.
	Medicare Rx Price Negotiation	14	Requires Medicare to use its bargaining power to negotiate for drug prices. Score requested from fiscal commission; $14 billion estimate from similar proposal by the Bipartisan Policy Center's Debt Reduction Task Force.
	Additional Options:		
	Reduce exclusivity period for brand-name biologics from 12 years to 7 years ($0.6 B)		
"Other" Mandatory $7.7 Billion	Reduce farm subsidies	7.5	50% cut in federal direct support for agriculture. Much of the federal assistance for agriculture goes disproportionately to large, corporate farms in ways that hurt smaller family farms. Large profit margins for big corporate farms at the production and marketing levels exerts massive downward pressure on farm commodity prices.
	Eliminate the Market Access Program	0.2	The Market Access program uses taxpayer dollars to fund advertising and promotion by private companies marketing agricultural products in other countries. These companies include McDonald's, Nabisco, Fruit of the Loom, and Mars.

Mandatory Subtotal
$38.9 Billion

*Indicates this option was included in the Bowles-Simpson proposal

Schakowsky Deficit Reduction Plan

Tax Expenditures
$132.2 Billion

Option	Deficit Reduction in 2015 ($Billions)	Details
Limit the Deductibility of Financial Corporate Debt Interest Payments	77.1	Limiting the tax policy that favors debt as a financing source would generate revenue and discourage highly-leveraged financing. Many economists have said that companies taking on too much debt was a major cause of the financial crisis. This option would make the preference an after-tax credit of 25% rather than a pre-tax deduction.
Close Dividend Loophole for Foreign Source Income	34.1	This tax break allows firms to avoid bringing foreign income back to the U.S.
Close Active Financing Tax Deferral for Financial Firms	6	This tax break encourages firms to make investments overseas and avoid paying taxes in the U.S.
Repeal a tax subsidy for mergers and acquisitions	5	Go back to old rule for writing off "intangible" assets. Existing rule functionally has served as a tax break for mergers and acquisitions. The old rule would only allow a tax break for assets that could be shown to depreciate over time.
Eliminate the deduction for business meals and entertaintment	10	This deduction has been reduced twice before; it also results in an unknown amount of fraud and abuse.

Additional Options:
Special Blue Cross/Blue Shield deduction - Eliminate special deduction that acts as a federal subsidy for operations, and for which other health insurance companies are ineligible. ($0.7 B)
Capital gains treatment of certain timber income - Eliminate treatment of certain timber sales as capital gains rather than income. ($0.1 B)
Expensing of multiperiod timber growing costs - Eliminate special rules that allow timber companies to immediately write off their production costs even though other businesses have to amortize those costs. ($0.3 B)
Eliminate tax-exempt status for insurance companies operated by tax-exempt organizations. ($0.2 B)
Exception from passive loss rules for $25000 of rental loss - These special rules for real estate investors relate to how investment losses are treated. The exception means that rental losses aren't protected by rules that prevent the ability of an individual to use the losses as a tax shelter. ($13 B)
Eliminate special capital gains tax rate for sales of certain agricultural items, and instead tax such sales as income. ($1 B)
Expensing of certain multiperiod agricultural production costs - Eliminate exemption of livestock and crops with production period of 2+ years from uniform cost capitalization rules. ($0.1 B)
Eliminate the ability to expense capital improvements (including feed and fertilizer) as property. ($0.1 B)
Eliminate mortgage interest deduction for second homes

Schakowsky Deficit Reduction Plan

	Option	Deficit Reduction in 2015 ($Billions)	Details
Revenues			
Taxes $144.6 Billion	Tax Capital Gains and Dividends as Ordinary Income	88.1	Subject capital gains and qualified dividends to the regular income tax schedule. Making this change would also address the inequity of current tax rates on "carried interest" earnings.
	Reform the Estate Tax with a Progressive Schedule of Marginal Tax Rates	4.5	Based on bill by Senators Sanders, Harkin, and Whitehouse (S.3533). Would set the estate tax exemption at $3.5 million per individual and $7 million per couple. Includes a graduated rate structure. Estates up to $10 million would be taxed at 45%, estates over $10 million would be taxed at 50%, estates over $50 million would be taxed at 55%, and estates over $500 million would be taxed at 65%.
	Cap and Trade (Divert 50% as Rebates)	52	Assumes enactment of a cap and trade bill in which emission allowances are allocated through an auction and the revenue generated is recycled back to consumers, with particular emphasis on offsetting the regressive nature of the rising energy costs.
	Additional Options:		
	Implement a 1.5% surtax on corporate income ($5.8 B)		
	Excessive Executive Compensation Tax ($17.4 B)	Salaries over $1 million are not tax-deductible (for the amount over $1 million). Many companies get around this by increasing performance-based compensation or other benefits, which are not taxed, including bonuses, retirement, deferred compensation, and stock options. We would close the following tax and accounting loopholes that encourage excessive executive pay: 1. Unlimited deferred pay ($80.6 million) 2. Offshore deferred compensation ($2.1 billion) 3. Unlimited deductibility of executive compensation ($5.2 billion) 4. Stock option accounting double standard ($10.0 billion)	
Non-Tax Revenues $7 Billion	Raise rates that the private sector pays for use of public resources	7	e.g. EPA gives away SO_2 allowances each year under the Clean Air Act - auction them instead; limit Dept. of Interior royalty relief to offshore drilling and gas production; extend FCC's authority to auction radio spectrum licenses
	Additional Options:		
	Raise liability caps in federal law or index with inflation, where it isn't already (e.g. the Clean Water Act, the Oil Pollution Act)		

Revenues Subtotal
$151.6 Billion

Schakowsky Deficit Reduction Plan

	Options:	Percent of Projected Shortfall Closed
Social Security	Eliminate the Social Security payroll tax cap on the employer side; raise the cap on earnings on the employee side to 90%	74%
	Treat other salary reduction plans like 401(k)s	13%
	3%-4% legacy tax on all earnings over cap	26%
	Optional benefit increase: Excess funding should be used to improve benefits. Some possibilities for Committee consideration are minimum benefits, restoration of student benefits, caregiver credit, and benefit increase at 85.	

Investments **$200 B** **in 2011-2012**	Funding would be used to maximize job creation based on an analysis of impacts of initiatives such as the Local Jobs for America Act, funding for education and law enforcement; UI, FMAP and SNAP extensions, and infrastructure.

Concurring Views by Congressman John M. Spratt, Jr On Deficit Commission Report.

I join ten colleagues of the President's Fiscal Commission in support of the Bowles-Simpson Plan – subject, I should add, to a number of caveats, because there are numerous parts I do not agree with. On balance, I believe that the risks of not moving this process are far greater than the risks of moving it. The fiscal policies of this country cannot be sustained. If current policies are continued, by 2020 the federal government could be spending over one trillion dollars a year in interest on the national debt. The national debt itself could well exceed the nation's gross domestic product. The question is not whether we are headed for a crisis but when. When will we confront a crisis beyond our control, instead of measures we carefully choose? For me, too much is at stake to make inaction an option.

The plan proposed by our co-chairs would reduce deficits by $3.9 trillion over the period 2012 – 2020, but to reach these results, it calls for some hard choices. In that respect, it is no different from other plans, such as Gramm-Rudman-Hollings in 1985, the Bush Budget Summit in 1990, or the Balanced Budget Agreement of 1997. There is no painless way out. Bowles-Simpson does make some of these choices harder by electing to reduce the 2015 deficit to 2.4% of GDP, as opposed to the President's goal of 3%; and by seeking 75% of the savings through spending cuts versus 25% from revenue raisers, as opposed to an even split. Bowles-Simpson also raises some targets that will be hard to meet—for example, cutting discretionary spending 22.5% by the year 2020 or making major cuts in federal health care programs, on the heels of cuts made to pay for healthcare reform.

It is common place to say that spending is the problem, but in fairness, revenues are also part of the problem. One cannot avoid the irony that on the one hand the cost of extending the full Bush tax cuts through 2020 is $3.9 trillion and, on the other hand, the Commission's package calls for difficult choices to eliminate $3.9 trillion in deficits and debt. The co-chairs' report assumes that some of these tax cuts will be extended; but it also assumes that 25% of its solution will come from revenues, recognizing that revenues are part of the solution.

All in all, this shows that reducing the deficit is not just an exercise in hard policy choices, but in hard political choices as well, particularly if we want to muster and maintain the majority needed to pass any such agreement.

In a budget of this complexity, it is easy to find fault and raise doubt. I have caveats, but I can support the plan, despite my concerns, because these proposals are far from being final.

This report makes recommendations; it does not make law. The Commission defends its recommendations by citing tax and spending policies that Congress could pass to reach the deficit-reduction results. This is one way of answering critics who claim that it is easy to propose dollar amounts of spending to be cut or revenues to be raised, and much harder to propose specific programs to be cut or taxes to be raised. To show that its proposals are feasible, the Commission cites tax and spending policies that could be revised or repealed.

Many of the recommendations made are not endorsed or supported by all members of the Commission, and in any event, they are advisory and not intended to replace the role of the House and Senate committees with jurisdiction over the subject matter. The Commission defers to the committees of jurisdiction, recognizing that in the budget reconciliation process, some of its recommendations would be adopted, some rejected, and some replaced, so long as the bottom line is consistent is with the reconciliation instructions.

The Commission's report does not alter the budget process. Necessary changes in policy will still begin with the Budget Committee, and still, of course, include reconciliation. The budget resolution will set spending ceilings and revenue floors and target deficits over time; and the committees of jurisdiction will ultimately decide the policy details. Where revenues are to be raised, Ways and Means will be directed to respond, and the tax provisions in its response may correspond to the policy changes proposed by the Commission, or they may not, so long as they reconcile current law to new law and produce the requisite revenues. Where appropriated funds are concerned, the Budget Committee will set caps and fire walls, and within these broad boundaries, the Appropriations Committee will allocate funds. Its allocations may or may not correspond to the policies proposed by the Commission, so long as they stay within boundaries.

If the Commission's recommendations ever become law, they will have to be accommodated by the budget resolution, and any changes in mandatory spending would have to be authorized by the committees of jurisdiction. Changes to discretionary spending would have to be authorized and also funded by the Appropriations Committee. As for caveats, there will be ample opportunity to clean them up or toss them out.

Even if this report does not become law, it will feed ideas, goals, and a sense of urgency in the legislative process, and fuel a debate on our fiscal course, showing that we are in earnest, even though we are not in full agreement.

The President deserves great credit for creating this commission, as do Senator Conrad and Senator Gregg for conceiving it. The co-chairs deserve our gratitude for giving it gravity and focus and making it productive; and our staff deserves credit for a prodigious amount of work, and excellent work at that. I am honored to serve and glad to lend my consent to this report in the fervent hope that this process will ultimately bear fruit.

Statement of Andy Stern on the Report of the Fiscal Commission
December 3, 2010

Ten (10) months ago, the President signed an Executive Order creating this Commission. America, at that moment, was recovering from the shock of an economic earthquake that rattled the foundations of our economy leaving millions of Americans with lost homes, lost retirement savings, lost jobs, and lost hope. Except for a small coterie of Congressional leaders like Senator's Judd and Gregg, deficit reduction was not a very sexy, front page, high priority issue.

Erskine Bowles, Alan Simpson, and this Commission changed that--- forever.

Today, these Commissioners alone, have produced five (5) comprehensive plans*, each meeting the President's mandate to achieve primary fiscal balance by 2015. The process, and results of this Commission debate has caused a powerful tectonic paradigm shift- from should we have even have a fiscal plan for our nation, to which plan is best for America's future.

Erskine Bowles is correct, "The era of debt denial is over", but more importantly our country requires decisive action before our directionless fiscal wandering becomes a chronic disease that; saps the strength of the world's greatest economy; undermines our national security, and ends the unique and enduring American Dream, that each generation of children do better that their parents.

That is **not** the America we want, and what these five (5) plans demonstrate, it is no longer a matter of policy, but now a matter of politics and leadership.

The Bowles-Simpson plan, none other, has on its merits received a majority of votes of these Commissioners. It has fairly earned the right to a debate, and vote, in both the Senate and House next session.

If it fails, than Congress should put to a vote any of the other four (4) Commissioner's plans or any other comprehensive economic plan that puts America on a sustainable fiscal path by the end of the decade.

This Commission report also challenges our President to offer his plan for economic growth, and fiscal responsibility no later than his State of the Union, and challenges Congress to adopt a plan no later than Election Day 2012.

I voted no, despite my admiration for the effort, because any plan, I feel strongly, must tackle **both** our **fiscal** and **investment** deficit needed to create jobs and a dynamic economy. No family would willfully balance its budget by not sending their child to college. No business can successfully compete with outdated equipment. And no nation can simply cut its way into prosperity. I felt the plan should better balance revenues and spending cuts, could balance Social Security while preserving more benefits, made too many short term cuts in health care before full reform was implemented in 2018, and did not have shared corporate responsibility.
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This is a moment of truth for America. Our future, our countries future, and our children's future is not a matter of chance. It is a matter of choice.

And it is time to decide!

* Bowles-Simpson A Moment of Truth; Rivlin-Domenici Reclaiming our Future; Paul Ryan A Roadmap for America's Future; Jan Schakowsky Deficit Reduction Plan; Andy Stern The 21st Century Plan for America's Leadership http://voices.washingtonpost.com/ezra-klein/2010/12/andy_stern_takes_on_the_second.html

For Release December 2, 2010:

The 21st Century Plan for America's Leadership
Submitted by Andy Stern

The Bowles-Simpson proposal has been a wake-up call, and a responsible effort to make America understand, as Chairman Bowles has said, that "…the era of debt denial is over". We all need to be cognizant of the real dangers to our families if we do not get America on a fiscally sustainable path.

Our country and our economy, joined by the rest of the world, are undergoing dramatic, unprecedented, and rapid transformation.

To succeed, Team USA must rise to this historic challenge, and create a new 21st century economic plan to ensure that the dreams of our children and grandchildren still come true.

The 21st Century Plan for America's Leadership is my contribution to this debate.

Fiscal responsibility is not a mere accounting exercise. Our country has to address another significant deficit in addition to its fiscal one—an investment deficit.

If we do not make short and long term fiscally responsible investments in national priorities (e.g. infrastructure, broadband, education) to create dynamic economic, wage, and job growth, then American workers will fall behind, and our businesses will be less competitive in this new global economy.

My plan addresses both- the fiscal and investment deficit; reduces the fiscal deficit by nearly $4 trillion (virtually identical to Simpson-Bowles); adopts the Sustainable Defense Task Force and the Coburn audit recommendations for defense; confronts the need to control costs for health care at GDP+1 per beneficiary, but also recognizes the need for the long term structural reform in health care; offers a responsible pathway to ensure Social Security solvency for 75 years without damaging the one stable source of retirement savings for a majority of Americans; and in addition to the Transportation Trust Fund, creates the **Invest in America Fund** that is fully paid for, and guarantees designated revenues for economic growth, and the enhancement of American competitiveness.

Finally, over the longer term, it is time for Washington leaders to stop being historians, and start becoming futurists by engaging in a mature future oriented conversation of how we can maximize America's long term economic growth and competitiveness.

1. How do we fundamentally overhaul our tax system so we simplify the code, lower rates, close loopholes, end or reduce tax earmarks/expenditures, and generate the revenue we need to keep the American Dream alive?

2. How do we end an employer based health care system that puts the cost of health care on the cost of our products, and expects American business to succeed against competitors in other nations who do not?

3. In an era of tight budgets, can we continue to afford to pay 5+% of GDP more than other nations for a health care system that provides similar results, and, if not, what structural changes are needed to create a new system that fundamentally reduce health care costs?

4. Should we reduce rates, simplify the tax laws, eliminate 100 million tax returns, and advantage exports over imports, by using a consumption tax like most of our competitors?

5. What investments are needed, for example, in infrastructure, broadband, and education, to increase our chances of success in a global economy, and what revenue will America dedicate to fund these investment needs?

The next Congress has the opportunity, but more importantly the responsibility, to put this country on a path to fiscal balance. Congressional leaders should either produce their own comprehensive plan or submit Bowles-Simpson, **The 21st Century Plan for America's Leadership** or any other plan for a vote this year.

This is a moment of truth for America, and its elected leaders.

2010

A 21st Century Plan for America's Leadership

Submitted By Andy Stern

Andy Stern
Georgetown Public Policy Institute
12/1/2010

21st Century Plan for America's Leadership

Our Challenge

Fiscal responsibility is not a mere accounting exercise. There is a lot more at stake for our country and its citizens. In the 21st century, our country, joined by the rest of the world, is experiencing rapid and dramatic globalized, economic, technological, and demographic, change. To succeed as a nation, we require a new *21st Century Plan for American Leadership.*

Experts from all across the political spectrum have stated different degrees of agreement with Robert Greenstein's of the Center for Budget and Policy Priorities analysis that, "The United States faces a very serious deficit problem if current policies remain unchanged. The problem will ultimately threaten the economic health of our country and compromise the ability of the government to meet crucial national needs."

The Citizens' Commission pinpointed the fundamental driver of the deficits, "If we do not control our health care costs, the economy will be devastated."

But there are other important considerations. As Defense Secretary Gates explained, "Our national debt is our biggest national security threat."

This is a report about the future of the most basic values and beliefs of our country; freedom, democracy, liberty, security, prosperity, innovation, growth, and the American Dream. As citizens, parents, grandparents, uncles and aunts, immigrants and native born we must do everything in our power to make the dreams of our children and grandchildren still come true. The tough choices in the *21st Century Plan for American Leadership* build on the genius of the founders of our country, which now calls for this generation to offer 21st century choices to maintain America's enduring leadership as the nation that is the beacon of hope for the world.

HIGHLIGHTS OF STERN PROPOSAL

NEARLY $4 TRILLION OF DEFICIT REDUCTION

1. Reduces deficit by 3.8 trillion by 2020, comparable to Simpson-Bowles

Stern Proposal

Year(s)	2015*	2012-2020
Discretionary Spending	163	1,464
Mandatory	58	533
Spending in the Tax Code / Tax Reform	100	951
Other Revenue	18	210
Net Interest Savings	33	673
Total Reduction	**372**	**3,831**
Invest in America	0	396.3
Invest in America Revenues	0	396.3

Discretionary Spending

1. Implements a modified version of Bowles-Simpson discretionary spending limits with a lower level of discretionary cuts, and uses Frank-Paul Sustainable Defense Task Force for defense spending. Those Sustainable Tax Force levels allow for a gradual shift in the balance of defense/non-defense back toward 2000 discretionary spending ratios of (48/52%), the last time the budget as balanced. -- rather than current level of 54/46%. The 2010 ratio includes most post 9-11 homeland security increases in the non-defense discretionary budget.
Once these levels are established in 2012, funds cannot be shifted across the firewall until 2017. (The same principle would apply if the firewall was shifted to a security/non-security division.)

3. Implements Sen. Coburn audit requirements in 2015 so that future defense spending would be frozen at 2015 levels without a completed audit. (With audit future increases would continue along Frank-Paul path.)

4. Acknowledges that they are enough appropriate cuts in the combination of Bowles-Simpson, Rivlin-Domenici, CAP, EPI, and Schakowsky to meet the discretionary non-defense targets.

5. Adds a new separate, permanent Invest in America Trust Fund, (similar to the Transportation Trust Fund) outside of the discretionary spending budget levels, for long term investments (e.g. infrastructure, smart grid, education, broadband) to promote economic growth and increased US global competitiveness. It designates specific revenue sources for the fund. The Fund will allow business the certainty it needs to invest in longer term production and decision making that will drive economic growth, innovation, and job creation.

6. Adopts enforcement mechanisms of Simpson-Bowles with one slight modification.

7. Supports immediate investment to revive the economy and create jobs along the lines of the Rivlin-Domenici proposals payroll tax credit.

Health Care

1. Requires payment for any SGR-"Doc Fix" as described in Bowles-Simpson.

2. Encourages full implementation of reform with no additional health care cuts until 2018 other than the SGR "Doc Fix" noted above.

3. Holds health care cost increases in 2020 and beyond to GDP +1% per beneficiary, and outlines suggested changes in the current system, and possible system restructuring.

Reform of Tax Spending and Revenue Proposal

1. Adopts preferably Bowles-Simpson Option 1 (Zero Plan) or Option 2 (Wyden-Gregg style) proposal with an $80 billion dollar budget deficit contribution from personal income taxes.

2. Adds a new Option 3 to cap tax spending deductions at a maximum of 15%, taxes capital gains and dividends as ordinary income after a $1,000 exemption, and recommends other specific reforms to tax expenditures that generate $80 billion dollars of additional revenue for deficit reduction.

3. Adds a new Option 4 to end tax filing for 100 million Americans and increased competitiveness through Michael Graetz hybrid consumption-income tax plan.

4. Adds shared responsibility for corporations, as the Bowles-Simpson plan expects of small business, and individuals, by guaranteeing a minimum $20 billion dollar contribution to deficit reduction from corporate taxes. Reduces corporate tax rate to 26% while permanently extending the research credit, and also ensuring that shifting to a territorial system of taxation does not accelerate the exportation of American jobs. These corporate tax cuts are paid for through base-broadening reforms by making modifications to several business tax expenditures or a surcharge if necessary in the future. (Bowles-Simpson).

5. Gradually, increases the gas tax to fund the Transportation Trust, uses “chained” CPI in Federal programs, and treats dividends and capital gains as ordinary income (Bowles-Simpson).

Social Security

Although Social Security is included, it is for its own sake, and not for deficit reduction.

1. Increases taxable wage base gradually so that by 2030, 90% of employers and employees wages are included in the tax base, the percentage in 1983, and as described in Bowles-Simpson. Lifts the cap on taxable wages on employers only, in 2030.

2. Creates a new bend point for annual indexed earnings above $150,000 of 5%.

3. Includes newly hired public workers in 2020.

4. Allows for more flexibility in investments, up to 15% of Trust Fund.

5. Adopts chained cost of living formula for annual benefit adjustments as described in Bowles-Simpson.

6. Adopts increase in benefits for seniors and special minimums per Rivlin - Domenici.

7. Treats all salary reduction plans like 401(K's).

8. Requires consideration of flexible retirement age in any consideration of increasing retirement age.

A PLAN FOR DISCRETIONARY SPENDING

BOWLES-SIMPSON 2012-2020-Original Proposal (3)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	Percent
Defense	548	550	545	541	554	568	581	592	601	5,080	51%
Non-Defense Discretionary	546	533	527	520	530	538	549	560	574	4,877	49%
Total	1,094	1,083	1,072	1,061	1,084	1,106	1,130	1,152	1,175	9,957	

STERN 2012-2020

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	%
Defense*	537	534	537	532(1)	536	542	545	567	586	4,916	49.4%
Non-Defense Discretionary-2	557	549	535	529	548	564	585	585	589	5,041	50.6
Total	1,094	1,083	1,072	1,061	1,084	1,106	1,130	1,152	1,175	9,957	

***Numbers from Sustainable Defense Task Force (Frank-Paul) (1) Freeze in 2015 if no audit and accounting changes as proposed by Senator Coburn (2) Discretionary includes most Homeland Security expenditures, and does not include Transportation Trust Fund spending. (3) These numbers were based on the first Simpson-Bowles, and the second proposal makes additional cuts which are not considered as appropriate in this plan**

A series of reports issued by Bowles-Simpson, Rivlin-Domenici, CAP, EPI-Demos, and Schakowsky, Sustainable Defense Task Force, Senator Coburn show the difficulty, but opportunity to achieve enough appropriate discretionary non-defense and defense targets.

Revive the Economy and Create Jobs

Implement short term efforts to revive the economy and create jobs using Rivlin-Domenici payroll tax or other mechanisms that more quickly help revive the economy.

A PLAN FOR ENFORCEMENT

- Enforce discretionary caps with (1) a 60 –vote point of order to enforce caps in Senate; (2) separate non-amendable vote on point of order to enforce cap in House; (3) sequester applied if caps are exceeded (Bowles-Simpson).

- Budget for disaster funds; tougher limits, transparency for emergencies (Bowles-Simpson).

- Convert the federal budget process to biennial (Bowles-Simpson).

- Cap the firewall separating defense and non-defense until 2017 (modified date Bowles-Simpson).

- Move Transportation Trust Fund spending in mandatory, limit transportation spending to existing revenue collection and prohibit general fund bailouts of transportation trust funds (Bowles-Simpson).

- Establish bipartisan Cut-and-Invest Committee to de-authorize outdated, low priority and inefficient programs and recommend high priority long-term investments (Bowles-Simpson).

- Tighter definition and rules for Overseas Contingency Operations funding (outside CAP) (Bowles-Simpson).

A PLAN FOR TAX REFORM AND TO REDUCE TAX SPENDING

This tax reform plan generates enough revenue to cut the deficit and invest in a 21st century high road economy that prioritizes economic recovery, investing in the development of new markets, developing new technologies, building new infrastructure, and strengthening our crucial social entitlement programs.
The plan has three specific objectives:

1. Generate $100 billion in revenue from reforms to the personal and corporate income tax codes to cut the deficit and fund new national priorities;
2. Enhance competitiveness of U.S. business by lowering the top marginal corporate tax rate and funding the rate reduction by broadening the tax base;
3. Add new sources of revenue to invest in America.

(Note: All plans have used chained CPI government-wide, including the tax code.) (Bowles-Simpson)

Personal Income Tax Options

Below are four different personal income tax reform options that each are designed to generate enough new revenue to help reduce the deficit by $80 billion annually between now and 2020.

Option 1- Bowles-Simpson's Zero Option with retention of the EITC and the Child Care Tax Credit. (Preferable to Option 2)

Bottom Middle Top

							Corp. Rate	
Current Rates for 2010	10%	15%	25%	28%	33%	35%		35%
Scheduled Rates for 2011	15%		28%	31%	36%	39.6%		35%
Eliminate all Tax Expenditures*	8%		14%		23%			26%
Keep Child Tax Credit + EITC*	9%		15%		24%			26%
Keep Child Tax Credit + EITC; Reform Mortgage, Health, and Retirement Benefits at 80% of Current Level and Switch to Territorial System*	12%		20%		27%			27%
Keep Child Tax Credit, EITC, and Current Mortgage, Health and Retirement Benefits and	13%		21%		28%			28%

Option 2: Wyden-Gregg style reform as outlined in Bowles-Simpson.

Option 3: Assume expiration of 2001/2003 tax rates above $250,000 in annual income. Reform targeted tax expenditures and other tax provision as follows to produce $80 billion in revenues for deficit reduction.

Reform	Revenue
Cap value of itemized deductions at a maximum of 15% (vary cap based on revenue).	Minimum of $40 billion (capping at 28% generates $30 billion)
Tax capital gains and dividends at ordinary tax rates	100
Extend and permanently index the 2009 AMT exemption thresholds	-66
Index tax thresholds using the chained CPI	15
Permanently extend the Making Work Pay Tax Credit	-4.2
Permanently extend enhancements to the Child Care tax credit, the EITC and the Dependent Care tax credit	-4.5

Option 4: Hybrid Consumption Tax and Eliminate 100 Million Tax Returns

Increase competitiveness, increase exports, and add costs to imports by replacing part of the income tax with a consumption tax with rebates for low income earners (see Michael Graetz proposal) http://www.nasi.org/usr_doc/Michael_Graetz_Background_VAT_Paper_09_19_06.pdf)

A PLAN FOR CORPORATE TAX REFORM

Corporate tax reform must generate at least a net of $20 billion of new revenue and, if necessary, a new effective tax rate, minimum tax or other fail safe measure needs to be established to insure new revenue. There must be an expectation that Corporations share in the responsibility of funding the budget as do small businesses, and individuals.

The plan reduces the top marginal corporate tax rate to 26% and permanently extends the research and experimentation tax credit (Bowles-Simpson). Moreover, it reforms the international corporate tax system by eliminating tax on active foreign-source income while retaining apportionment of global expenses. There is concern of tremendous leakage possibilities in revenue and jobs in a shift to Territorial taxation, and, therefore, a failsafe revenue mechanism needs to be developed, and a review and certification by the Treasury Dept. that the system designed does not accelerate job loss.

These corporate tax breaks are paid for by broadening the corporate tax base to net an additional $20 billion annually, and could include elimination of the following:

- Domestic production incentives
- Interest deductibility
- Allowance of LIFO method of accounting
- Energy tax preferences for the oil and gas industry
- Accelerated depreciation
- Additional options considered by Wyden-Gregg

Trust Fund Revenues

TRANSPORTATION TRUST FUND

Gradually Increase Gas Tax to Fund Transportation (Bowles-Simpson)

- Raise gas tax gradually by 15¢ beginning in 2013.
- Dedicate funds toward fully funding the transportation trust funds and therefore eliminating the need for further general fund bailouts.

Invest in America Trust Fund

Invest in America	**75**	**77.3**	**79.6**	**82.0**	**84.4**	**396.3**
Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2016-2020**

Our country has not only a financial deficit, but a deficit of investment in the infrastructure needed for America to create jobs, and for business to compete in a global economy. This proposal builds an investment trust fund adding to the money, if any, generated by the Cut and Invest Committee (Bowles-Simpson) process. It is to be a permanent fund beginning in 2015, with an initial investment of $75 billion dollars, increasing by 3% annually. A range of long term investments (e.g. infrastructure, smart grid, education, and broadband) will be recommended each year by an outside panel of experts appointed by the President and Congress.

The following are ways to fund the Invest in America Trust Fund:

- Short-Term Financial Stock Transfer Fee -A modest stock transfer tax of approximately 0.25-.50 % percent on every purchase or sale of a share of stock held for less than one (1) year (capital gain term) to encourage long term investment, and a cost to short term supercomputer trading could produce $50+ billion dollars.

- Tax on Internet Gaming -This tax produces $4.2 billion a year.

- New Top Earner Tax Bracket -Add a new top tax rate for income in excess of $1 million dollars. ($50+ billion) that would function as a surcharge.

- Tax Gap-Money raised by increased enforcement mechanisms to close the tax gap.

A PLAN FOR HEALTH CARE

Reducing Health Care Costs

- **Medium Term:**
  - Fully offset the cost of the "Doc Fix" (Bowles-Simpson). Make no other health care cuts until 2018 to allow for full implementation of reform.
- **Long Term**:
  - Contain growth in total federal health spending to GDP+1% per beneficiary beginning in 2020. Establish a process to regularly evaluate cost growth, and take additional steps as needed if projected savings do not materialize (Bowles-Simpson).

The ability to meet these targets will require a major re-structuring of our health care system that will preferably tackle all of America's health care costs, not just the Federal government spending. It will require one or several of the following options:

- **Possible Future Changes**

Improve Current System

- Required implementation in Medicare, Medicaid, VA, Tricare, etc. of lessons learned from health care reform's experiments in the next several years on payment reform, prevention, chronic diseases, etc.
- Empower Med Pac or the IPAB to make cost containment recommendations subject to disapproval by Congress.
- Implement Public Option.
- Establish a Medicare Part D Modeled on VA.
- Pharmaceutical Negotiations.
- Increase Revenue or Means Test.

Restructuring Current System

- Restructuring to proven lower cost systems (e.g. Switzerland, Germany, and Taiwan) or other new designs that lower all health care costs public and private.
- Medicare for All with national budgeting.

A PLAN FOR SOCIAL SECURITY

We have an opportunity and a challenge to lay the groundwork for a stronger retirement system in this country that meets the needs of all workers and employers. Most Americans working today will enjoy less retirement security than their parents, a reversal linked to the decline in employer-provided pensions and exacerbated by the stock market collapse, which slashed the incomes of millions of retirees and forced many older workers to push back their retirement.

We know that Social Security is the most fair, durable and efficient social insurance and retirement system this country has ever created. But we also know that it is not enough to allow all Americans to retire with dignity and a decent standard of living. Social Security guarantees a secure lifetime benefit to nearly all retired Americans, but the average Social Security retiree benefit is below $14,000 a year, less than a minimum-wage income for a full-time worker. The median income of older households is less than $30,000, roughly half that of younger households. Moreover, the average earner retiring at the normal retirement age (which is slated to rise from 66 to 67), Social Security replaces only 41 percent of pre-retirement earnings — which compares unfavorably with most other western industrialized countries. When it comes to Social Security, we must focus on both the adequacy of its benefits and the program's long-term solvency.

Whatever is done to restore full solvency to Social Security, will not provide adequate retirement security for most Americans. Using a 70% income replacement as a guide, Americans face a $6 trillion deficit in retirement income.

This proposal includes steps that, in the aggregate, would strengthen retirement security for all Americans by:

1. Strengthening the adequacy of Social Security benefits for the most vulnerable.
2. Making Social Security solvent over the long-term.
3. Establishing a framework for a new universal retirement vehicle, in addition to Social Security, in which all Americans can participate.
4. Not using any Social Security changes for deficit reduction.

Specific Reforms:

- **Return Wage Base to 1983 Levels**
  - Gradually raise the taxable maximum amount of wages subject to employer and employee payroll taxes (currently $106,800) over the next 20 years to reach the 1983 target of covering 90% of wages (modified Bowles-Simpson).
  - Eliminate the taxable amount of wages subject to employer (only) taxes in 2030.

- **Modify Bend Point to Make Benefits More Progressive**
  - Reduce credit towards benefits for average indexed earnings above $150,000 to 5% once the taxable wage cap has reached the $150,000 threshold for employees.
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- **Increase Universality**
  - Cover newly hired state and local government workers under the Social Security system, beginning in 2020. This will increase the universal nature of the program (Bowles-Simpson).

- **Chained Cost of Living (Per Simpson-Bowles)**

- **Longevity Insurance (Per Rivlin-Dominici)**
  - Provide the same dollar amount increase to the benefit level of any beneficiary who is 85 or older at the beginning of 2012 or who reaches their 85th birthday after the beginning of 2012. The dollar amount of increase equals 5 percent of the average retired worker benefit in the prior year. Phase in at 1% per year from 81 to 85.

- **Updating the Special Minimum Benefit (Per Rivlin-Dominici)**
  - Reconfigure the special minimum benefits to ensure that someone earning at least 20% of the old law tax max in each of 30 years would receive a PIA of 133 percent of the federal poverty level, with the formula phased up to 133 percent of poverty linearly for workers over 19 creditable years. Up to 8 years of care-giving could be used as creditable years for care of a child under the age of 6, if it is not otherwise counted as a creditable year (earnings < 20% old law tax max). Scale requirements for DIBs including child care credit years. Effective for new eligible's in 2012. Wage-index the poverty level from 2009 up to 2 years prior to benefit eligibility.

- **Treat All Salary Reduction Plans Like 401(K's)**
    - Contributions to salary reduction plans should be treated as ordinary income, subject to Social Security taxes, as are 401 (K) contributions.

- **Increase Trust Fund Flexibility**
    - Invest up to 15% of the trust fund in safer, long term alternative investments similar to Canada and defined benefit pensions (index funds, bonds, etc.) with higher returns. Note that funds would be invested once Social Security returned to positive cash balance, which will depend on timing and impact of revenue increases and benefit reductions outlined above.

- **Create Flexible Retirement Age**
    - While this proposal does not support an increase in retirement age; if one is recommended, Social Security should implement: 1) a flexible retirement age plan that allows workers with a higher probability of having lower life expectancy (as indicated by lower life expectancy-career average earnings) to retire earlier with full benefits 2) Allow workers with long careers in physically demanding jobs and who are in poor health, but do not meet the criteria for disabled worker benefits an opportunity to retire earlier with full benefits (available on request).

- **Overall Retirement Security in <u>Addition to</u> Social Security**
    - Establish mandatory employer-employee contributions to be deposited in personal supplemental accounts with progressive matches for low and moderate-income workers (Galston-MacGuineas Plan which uses 2% employer-employee mandatory contributions).
      (Structure also proposed by Concord Coalition, The" Roadmap Plan " by Paul Ryan, Sen. Sessions PLUS Accounts, Retirement USA, Teresa Ghilarducci GRA's.)